the FNPRM's current estimate of LEC BPP costs are already understated, and the Commission should carefully review the new cost estimates that will be submitted in this round of comments, in order to assure that the true costs of BPP are captured.

Moreover, the FNPRM apparently ignores a number of the actual costs that LECs are likely to face, and that OSPs and their customers will be required to bear. First, the FNPRM admits (¶ 27 and n.44) that its cost calculations exclude virtually all LEC overhead loading factors, which range as high as 30%. If allowed, these costs could add tens of millions of dollars to the annual costs for BPP. Even an average 10% loading factor applied to the total LEC costs would generate an annual increase of over $50 million in BPP costs.[32]

In addition, the FNPRM's estimates appear to exclude the LECs' costs to conduct the balloting that would be required to implement BPP, and the costs of establishing and maintaining ongoing processes that would enable customers to change their preselected "0" services

---

[32] The base for calculating these overhead factors would be the total LEC costs of BPP, excluding the offset of $90 million in recurring and $90 million in non-recurring OSP cost savings assumed in the FNPRM's analysis (see FNPRM, ¶ 25, which assumes a 50% reduction in non-recurring and a 75% reduction in recurring operator services costs because of presumed OSP savings).

carrier.[33] Similarly, the FNPRM does not include any costs related to the proposed requirement that commercial credit cards be included in BPP's design.[34] Also excluded are estimates of the incremental costs that would be necessary to incorporate 14-digit screening for TLN based calling cards into the service design.[35]

The FNPRM (¶ 28) also seeks comments on OSPs' BPP-related costs. AT&T confirms that the total BPP implementation cost estimate it submitted in 1992 is correct. However, the FNPRM does not include the costs of stranded plant, equipment and related facilities which AT&T and other OSPs would face if all front-end operator functions on 0+ calls were transferred to the LECs. AT&T estimates that its own transition costs would range between $80 million and $100 million. Other OSPs who provide their own operator services would face similar types of costs. In addition, the FNPRM fails to take account of the substantial costs OSPs would incur in the equal access campaign that will precede BPP. As indicated above, the industry cost for this effort could easily reach $250 million or more. This

---

[33] See FNPRM, ¶¶ 65-67.

[34] Id., ¶ 80.

[35] As demonstrated in Part III.C. below, 14-digit screening would be necessary in order to assure that no group of carriers could effectively control the issuance of TLN-based cards.

expense should be added to the OSPs' costs and treated as an additional OSP non-recurring cost for BPP.

Furthermore, the FNPRM only purports to include the projected costs for "traditional" LECs and IXCs. Thus, for example, it makes no allowance for the BPP costs of cellular or other wireless carriers. At a minimum, such carriers would be required to establish OSS7 interconnections with LECs. The FNPRM (¶ 35) recognizes that these costs are not captured in the FNPRM's current analysis. Such costs should be carefully reviewed and included in the final cost/benefit analysis.

In sum, the FNPRM's cost/benefit analysis does not show that BPP will benefit consumers. The FNPRM's analysis substantially overstates the benefits that could be derived from BPP, and it fails to take account of hundreds of millions of dollars in potential BPP costs. All of these items must be reviewed before the Commission makes any decision to proceed with BPP.

II. BPP WILL NOT ACHIEVE THE COMMISSION'S OVERALL GOALS FOR COMPETITION.

Contrary to the FNPRM's assumption (¶ 9), BPP also would not substantially increase competition. Contrary to the FNPRM's assumption (¶ 9), BPP would not cause substantially lower prices for most OSP customers. In addition, adoption of BPP would not support the overall

development of competition in the telecommunications industry.

The FNPRM misperceives the likely impact of BPP upon the principal OSP competitors and their customers. AT&T, MCI and Sprint currently provide a large majority of interstate operator services. These companies are already the "low priced" carriers for OSP services, and it can be assumed that they will continue to engage in vigorous price- and service-based competition whether or not BPP is adopted.[36] Moreover, as shown above, BPP would not generate savings for these carriers, compared to the new costs it would create. Thus, BPP would, if anything, reduce the potential efficiency of the largest OSP competitors.

Furthermore, if BPP were adopted on an interLATA basis by the Commission but not required by PUCs for intraLATA toll calls, LECs would be able to stifle emerging intraLATA toll competition. This would occur because all operator traffic would be routed to the LEC OSS7, not just interLATA traffic. The LEC would then process and carry the intraLATA calls without regard to the customer's desired carrier.

---

[36] Nor is it clear that all of the major carriers would seek to take advantage of BPP by encouraging their customers to dial "0" and pay the additional costs of BPP.

In addition, as AT&T has previously shown,[37] BPP would impact competition for interstate OSP services by limiting OSP service enhancements on 0+ dialed calls to those that can be accommodated within the context of available BPP offerings. Interposition of BPP between OSPs and their customers would also delay OSPs' ability to introduce new enhancements nationwide until the new capability could function in every BPP operating environment. This, in turn, would inhibit innovation on 0+ calling and eliminate an important aspect of competition for such services.[38]

In sum, the record does not support the tentative conclusion in the FNPRM, and there is no persuasive case for adopting BPP. Moreover, the cost recovery and other unresolved issues associated with the introduction of BPP are likely to embroil the Commission in substantial additional controversies. In fact, the large number and important nature of the unresolved issues surrounding BPP have already led three major RBOCs, including Bell Atlantic, BPP's initial sponsor, to urge the Commission to reject the proposal.[39] Considering the lack of financial or public

---

[37] See AT&T's 1992 Comments, pp. 15-16.

[38] BPP would, for example, preclude the use of voice activated dialing on 0+ calls.

[39] BellSouth and Bell Atlantic joint ex parte, May 5, 1994; NYNEX ex parte, April 28, 1994. Southwestern Bell has also indicated that it would oppose BPP if 14-digit

(footnote continued on following page)

policy justification for BPP, the availability of other means to achieve nearly all of BPP's objectives and the growing dissatisfaction with BPP among its former proponents, the Commission's investigation of this proposed concept should finally be terminated.

III. IF BPP WERE ADOPTED, IT SHOULD BE SUBJECT TO SEVERAL ADDITIONAL REQUIREMENTS.

A. BPP Should Include IntraLATA Calls.

If, notwithstanding the problems described above, the Commission decided to adopt BPP, it should be applied to all "0" dialed (i.e., both "0+" and "0-") calls from all telephones, including intraLATA calls.[40] If BPP were adopted in any other form, it would be hopelessly confusing to customers and fail to meet its primary objective (¶ 9), i.e., to establish a single, simple dialing protocol for everyone.[41] Therefore, BPP should not be adopted unless it

---

(footnote continued from previous page)

screening were required (Southwestern Bell ex parte, January 27, 1994).

[40] In addition, if BPP were implemented, it should be structured in a way that would minimize, if not eliminate, the extent of LEC "bottleneck" control over this competitively-vital system.

[41] Accordingly, the FNPRM (¶ 49) correctly concludes that BPP should be available in independent LEC territories and (¶ 82) that aggregators should not be permitted to program their phones to avoid BPP. Consumers who were aware of the changes that BPP would bring would be

(footnote continued on following page)

applies to all "0" dialed calls, including intraLATA calls.[42] The necessary uniformity could be achieved either through a consensual process among the Commission and state PUCs or by Commission preemption of inconsistent state law or regulation.[43]

In addition, if BPP were adopted, there is no reason to exclude collect calls that are placed from inmate telephones in prisons.[44] Calls from such phones represent a

---

(footnote continued from previous page)

frustrated and confused if they could not use the service in all regions of the country and from all aggregator phones.

[42] All calls to numbers using 500 and 700 codes and other Special Access Codes, however, should be excluded from BPP. See Part III.C. below. It should also be noted that AT&T's analysis of the "benefits" of reduced OSP commissions already incorporates the possible intraLATA benefits of BPP. Exclusion of the intraLATA deduction with respect to avoidance of "high-priced" OSPs would not change the negative cost/benefit analysis described in Part I above, even if there were no additional costs to implement BPP on an intraLATA basis (see Attachment C).

[43] Preemption would be permissible because a bifurcated system would be inherently confusing to consumers and thus significantly impair the Commission's regulation of interstate communications. The inclusion of intraLATA calls in BPP would not, however, prejudice the states' right to determine the scope of competition for intrastate intraLATA "0" dialed calls. Application of BPP to such calls would merely require that the BPP technology be used to allow callers to reach any OSP that is permitted to offer "0" dialed intraLATA calls.

[44] See FNPRM, ¶ 51. Collect calls are typically the only type of non-sent paid (i.e., non-coin) calls permitted by prison authorities.

significant portion of collect calls, which is the principal type of traffic that would benefit from the adoption of BPP.[45] Recipients of calls from inmates should not be deprived of capabilities that would be available to all other recipients of collect calls.[46] If, however, OSPs must incur significant costs in order to provide inmate calling service because of the unique aspects of the service and/or the reasonable requirements of prison authorities, they should be allowed to reflect those additional costs in their rates for prison service.[47]

B. Recovery of BPP Costs

The FNPRM (¶ 57) correctly concludes that BPP would be a new service for the purposes of price caps, because BPP would add new options for customers. The FNPRM (¶ 58) also acknowledges that the Commission's policy "generally is to attribute costs to cost causers," and it theorizes "that consumers would value the convenience of 0+

---

[45] See AT&T's 1992 Comments, pp. 7-8. It should be noted, however, that collect calls are declining as a proportion of dial "0" traffic and that the potential benefits of BPP are diminishing accordingly.

[46] See Citizens United for Rehabilitation of Errants 1992 Reply, p. 2.

[47] Unique costs for serving inmates may be generated, for example, by special fraud protections necessary to protect carriers and called parties, and by various security and call limitation measures required by prison authorities.

dialing and that many would pay a few cents more a call to enjoy it." The FNPRM (id.) notes, however, that OSPs might discourage callers from using BPP, thereby driving down BPP usage and increasing per call BPP costs. Therefore, the FNPRM (¶ 59) seeks comments on the manner in which BPP costs should be recovered.

There is no reason why the cost recovery rules for BPP should deviate from the general policy of assigning costs to the cost causer. Therefore, BPP costs should only be recovered from calls dialed on a 0+ or 0- basis. This position is fully consistent with the FNPRM's belief that customers would be willing to pay to use this additional capability, and it creates the proper balance between customers who would elect to use BPP and those who would not.

The FNPRM's concern that OSPs might "discourage" customers from dialing "0" ignores a simple marketplace fact: customers will not be discouraged from dialing "0" unless they are also encouraged to dial access codes, and they will not dial such codes unless they perceive that they will obtain a benefit by doing so.[48] Such benefits may be provided in the form of reduced prices, increased services or other items consumers perceive to be of value. OSPs'

---

[48] The FNPRM (¶ 82) properly rejects the suggestion that access code calls should be prohibited under BPP.

ability to compete by offering consumers such benefits would be impaired if they were required to pay for BPP services even when they and their customers do not use them.

C. 14-Digit Screening Is Necessary.

The FNPRM (¶ 74) correctly concludes that no form of BPP should give "LECs, but not OSPs, the ability to offer line-number based calling cards." Some LECs have argued that a 10-digit screening system would be sufficient to fulfill the Commission's objective.[49] The FNPRM (¶ 74) "harbor[s] some concern about the administrative implications of this proposal," but seeks further comment.

The FNPRM's skepticism is well-founded. LECs would continue to control the data bases which are used to support BPP. Thus, a 10-digit screening mechanism would be unduly restrictive for consumers, because it would only enable them to use their telephone line number ("TLN") based cards with a single OSP. This would effectively preclude consumers from splitting their "0" dialed "away from home" traffic between one carrier for business and another carrier for personal use.[50] Further, it would preclude them from

---

[49] See FNPRM, ¶ 73.

[50] In addition, family members or roommates who share a telephone could not establish separate accounts with different OSPs for their "0" dialed TLN card calls. Similarly, businesses with a single line number could not assign TLN cards to employees and use more than one OSP at a time.

(footnote continued on following page)

using TLN cards to "comparison shop" among carriers on demand, or to use OSPs selectively, based upon the type of calls they wish to make or the calling features they wish to use. Only a 14-digit screening mechanism would allow consumers to establish calling arrangements that would give them the flexibility envisioned for BPP.[51] Thus, if BPP were adopted, it should include this feature.

D. Other Issues

The FNPRM (¶ 68) also seeks comments on how "secondary" OSPs should be chosen in the carrier selection process.[52] AT&T believes that all carrier selections in connection with BPP should be made directly by customers,

---

(footnote continued from previous page)

[51] Moreover, the notification procedures necessary to change carriers under a 10-digit screening system provide opportunities for abuse that would not exist if there were 14-digit screening. In the latter case, OSP would establish a separate PIN that would only be used to access its own service. There would be no opportunity for one OSP to disadvantage or to "slam" another, because each OSP's TLN/PIN combination would be unique and separate from all others.

[52] AT&T generally concurs that, if adopted, BPP should be implemented through a limited balloting program and that non-voting customers should be assigned to their 1+ carrier for "0" dialed calling (see FNPRM, ¶¶ 65-67). In those cases where customers with LEC-issued calling cards do not have any 1+ service, such customers should be required to make an affirmative choice of OSP or have their calls blocked. In addition, LECs who issue such cards should be required to make cardholder lists available to all OSPs prior to any balloting.

including the choice of a "secondary" domestic OSP and the OSP that would be associated with any commercial credit card that worked with the BPP system.[53] This is consistent with the FNPRM's statement (id.) that "[i]f users would be billed directly by their secondary carrier for traffic that carrier handles, then ideally customers should be able to choose that carrier."[54]

Adoption of any other process would result in the creation of additional layers of aggregators who might seek compensation for routing traffic to the secondary OSP. Thus, regional OSPs should not be given the right to "package," for a fee, all of their out-of-area traffic to a single secondary carrier (or group of carriers), and commercial credit card issuers should be required to give

---

[53] AT&T opposes as unnecessarily confusing any requirement that customers be permitted to designate a separate "international" OSP (see FNPRM, ¶ 69). If such a choice were required, however, it should be made by customers themselves.

[54] The FNPRM (id.) also states that if customers were billed for all OSP calls by their primary carrier at its own rates, customers need not choose their secondary OSP. In this situation, however, the primary OSP is only carrier providing direct service to the end user. The primary carrier would be using the services of the "secondary" carrier in the same manner that any reseller employs services provided by an underlying carrier. In such a service configuration, the "primary" OSP should be permitted to make any network service arrangements it sees fit (see id., ¶ 69).

their cardholders the ability to select any OSP that is willing to establish billing arrangements with them.[55]

Finally, any BPP system should explicitly exclude "0" dialed calls to numbers using the 500 and 700 (or similar) special access codes ("SACs"). Telephone numbers associated with the new "500" service will contain all of the information necessary to identify the carrier for the call.[56] Thus, it would be superfluous, and possibly counterproductive, to apply BPP's carrier identification features to "0" dialed 500 number calls. The emerging 700 service, on the other hand, allows multiple carriers to use identical NXX-XXXX numbers.[57] In order to use the service,

---

[55] The FNPRM (¶ 68) also seeks comment on how the TOCSIA branding requirements would apply under BPP. AT&T believes that the branding rules are critical to consumers, whether or not BPP is adopted. AT&T also believes that the existing rules would allow OSPs to brand immediately upon receipt of the call from the BPP provider. Thus no rule changes should be required. It should be made clear, however, that the BPP provider may not provide any branding of its own network until (and unless) it is determined that the billed party wishes to use that entity's network for completion of the call.

[56] The NXX codes associated with 500 numbers are assigned to specific carriers. Therefore, the fourth through sixth digits of such numbers identify the carrier for the call, and there is no need to apply BPP technology to perform a carrier routing function.

[57] For example, the number 700-444-4444 can be assigned to one customer by AT&T, to a second customer by MCI, and to additional customers by other IXCs. The determination of the carrier who will handle such calls (and often the customer who will receive them) is made based upon the network accessed by the caller.

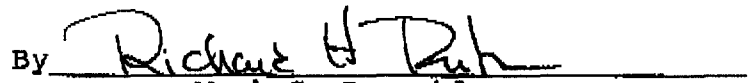
the caller -- and not any carrier -- must assure that the call is routed to the desired carrier. Thus, automatic application of the BPP routing algorithm could not work with 700 services.

CONCLUSION

BPP may be a superficially appealing concept, but it does not meet the Commission's own standards for adoption. The costs of implementing BPP will significantly exceed the anticipated benefits, the benefits of BPP can be achieved more efficiently through less expensive means, and BPP will not promote competition in the manner expected. Therefore, BPP should not be adopted. If, however, the Commission decides to require BPP, it should apply to all "0" dialed calls, including intraLATA calls, and be implemented in the manner described above.

Respectfully submitted,

AT&T CORP.

By 

Mark C. Rosenblum
Robert J. McKee
Richard H. Rubin

Its Attorneys

Room 3254A2
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-4481

August 1, 1994

ATTACHMENT A

CONSUMER BENEFITS FROM AVOIDING "HIGHEST-PRICED" OSPS
(All figures in millions)

I. Impact of Growth Rates

1991 Third Tier OSP Revenues (from Table 4)	$1,200	
1991 Third Tier Minutes (Revenues/$0.53 per min.)	2,264	
	AT&T	FNPRM
1997 Third Tier OSP Minutes @ 0.63% growth rate	2,350	
@ 4.3% growth rate		2,913
After 33% Loss of "High Priced" Minutes		
1997 Third Tier OSP Minutes	1,574	1,952
1997 Third Tier OSP Revenues @ $0.53 per min.	$ 834	$1,035
1997 Third Tier OSP "Excess" Revenues (Revenues x $0.19 per min.)	$ 299	$ 371
1997 "Excess" InterLATA revenues ("Excess" revenues x 76.2%)	$ 228	$ 283

II. Adjustment of Average Revenue Per Minute Due To Reduction in Market Share

If: The average revenue per minute for all Third Tier OSPs is $0.53

Then: Some carriers charge more than the average and some charge less.

If: 40% of Third Tier OSP minutes are generated by OSPs who charge rates similar to the largest OSPs and 60% of such minutes are generated by the "highest priced" OSPs ("HPOSPs")

Then: The average revenue per minute ("ARPM") of the HPOSPs is as follows:

$0.53 = .6 (ARPM of HPOSPs) + .4 ($0.34)
ARPM of HPOSPs = $0.6567, and

HPOSPs generate approximately 75% of all Third Tier OSP revenues

If: Market share reduction of "highest priced" minutes comes only at the expense of the HPOSPs

Then: Average revenue per minute ("ARPM") for all Third Tier OSPs in 1997 equals:

(.6 x .67) ($0.6567) + [1 - (.6 x .67)] ($0.34) = $0.4673

Thus: Elimination of remaining Third Tier OSP "excess" charges will only result in a per minute effect of $0.1273 ($0.4673 - $0.34)

Accordingly:

Consumer "savings" from the implementation of BPP would equal:

For all "away from home" traffic (1,574 minutes x $0.1273)	$ 200
For InterLATA minutes only (76.2%)	$ 152

ATTACHMENT B

CONSUMER BENEFITS FROM REDUCED OSP COMMISSIONS
(All figures in millions except percents)

Without BPP

1991 Industry "Away from Home" Revenues	$6,100[1]
Industry Growth Rate	0.63%
1997 Industry "Away from Home" Revenues	$6,334
1997 Industry "Away from Home" Revenue Split	
50% Dial Around Calls	$3,167
50% 0+ Calls	$3,167
1997 Commissions @ 14% of 0+ "Away from Home" Revenues	$ 443[2]

After BPP

1997 Aggregator Average Compensation (as percentage of Total "Away from Home" Revenues):[3]

@ 6%	$380
@ 5%	317
@ 4%	253

1997 OSP Commission "Savings" (i.e., 1997 Commissions less Average Aggregator Compensation) before incremental marketing expense:

@ 6%	$ 63
@ 5%	126
@ 4%	190

---

[1] All figures assume intraLATA calls are included.

[2] This amount equals 7% of total "away from home" revenues. Table 4 imputes a 1991 Total Average Aggregator Compensation of 8.2%, i.e., ($500 of commissions and surcharges/$6,100 of total "away from home" revenues).

[3] Amounts are inclusive of all dial-around compensation.

Net consumer savings after deduction of $150 million in incremental annual OSP marketing expense required by BPP:

@6%	$(87)
@5%	(24)
@4%	40

ATTACHMENT C

SUMMARY OF BPP BENEFITS

	FNPRM	AT&T	
	InterLATA	InterLATA	Add IntraLATA
Avoidance of Highest-Priced OSPs	$280	$152 - 228	$200 - 299
Commission Savings	$340	$(87) - 45[1]	$(87) - 45
	$620	$ 65 - 273	$113 - 344

[1] Includes intraLATA benefits.